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October 18, 2011

Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007



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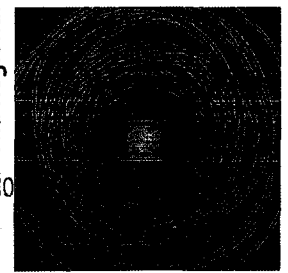
AZ CORP COMMISSION
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Arizona Corporation Commission

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OCT 24 2011

Southern Arizona Regional



SolarPartnership

RE: Docket NO. E-01933A-11-0269

Dear Commissioners:

The Southern Arizona Regional Solar Partnership (The Partnership) appreciates the opportunity to comment on Tucson Electric Power (TEP) Company's Application for Approval of the 2012 Renewable Energy Standard Implementation Plan (DOCKET NO. E-01933A-11-0269).

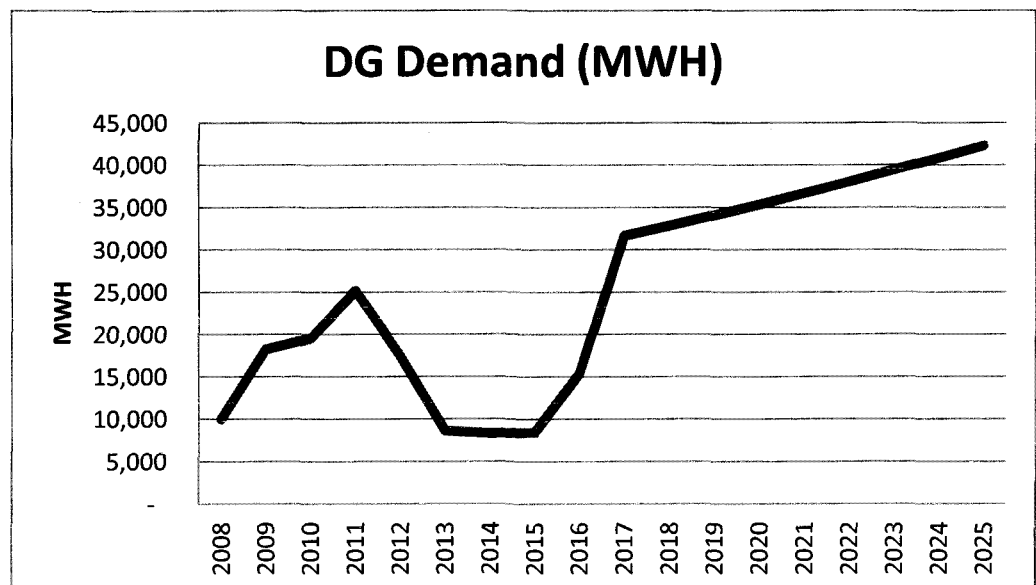
The Partnership would like to acknowledge the contributions of the Arizona Corporation Commission and Tucson Electric Power to the phenomenal growth of solar power over the past two years. The *current vibrant solar industry bolsters Southern Arizona's economic outlook and energy security.* However, the future stability of the solar industry and continued success of the REST is in jeopardy. TEP's 2012 REST Implementation Plan forecasts a severe drop in distributed generation (DG) between 2012 and 2016; this drop will undermine the solar industry in Southern Arizona and damage the long term viability of the REST.

We support the following recommendations for stabilizing the DG market that include setting a compliance floor of 20,000 MWhs between 2012 and 2016 and a realignment of residential up-front incentives (UFI). Adopting these recommendations will protect the solar industry and best position TEP to meet compliance targets through 2025 as set by the commission.

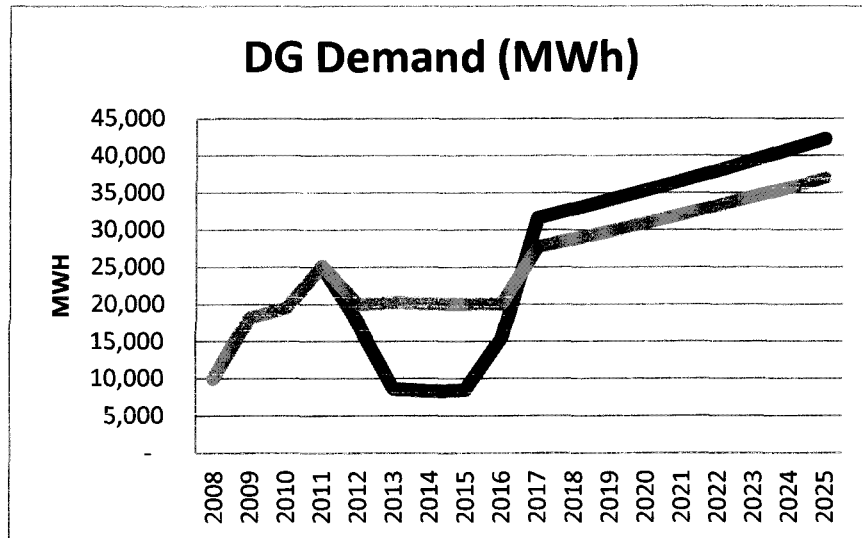
Setting a 2012-2016 Compliance Floor with Leasing Differentiation

As the graph below indicates, the design of the REST compliance targets between 2012 - 2016 leads to a severe dip in the number of DG systems placed in service. This contraction will be followed by a dramatic ramp up in system installations between 2016-2017.

The average incremental MWhs of DG needed between 2012 and 2025 is approximately 28,00 MWhs (assuming 1.5% yearly load growth). However, the average incremental MWhs of DG needed between 2012 - 2016 can be as low as 10,000 MWhs.



Setting a compliance floor of 20,000 MWhs between 2012 - 2016 will even out the valley that is approaching while smoothing off the peak in the subsequent years (see graph below). Furthermore, instating a 20,000 MWh/Yr floor will leverage the federal ITC during its scheduled term out to 2016. Lastly, it maintains a predictable level of system installs for installers to plan business operations around. This will help businesses retain talent and help lower the cost to install systems.



A 20,000 MWh floor will be 20% lower than 2011 levels

To meet this 20,000 MWh floor, TEP needs approximately 2,500 MWh of additional MWhs in the 2012 REST plan. TEP can take the \$1,773,000 of additional budget mandated during the 2011 REST hearing and apply it to the small commercial market segment.

# of additional small commercial systems needed	Size kW	kWh Output/Yr	Total MWh
32	40	68,000	2,176

With an average incentive of \$1.38/Watt (average of \$1.50 and \$1.25), this would cost \$1.76 million. Resulting in a slight 324 MWh shortfall assuming a 1700 kWh per KW DC output. However, the budget conservatively projects a full residential UFI of \$1.75 with no trigger down to \$1.50. If the trigger is indeed hit, this could provide the needed MWh.

To ensure meeting the MWh floor and stabilizing the DG marketplace, a realignment of residential incentives is needed. The current residential incentive market was setup to facilitate a direct ownership model - that is, a private household purchases to own a solar energy system and enters into an agreement with the utility for the system's renewable energy credits. Similarly, the small commercial up-front incentives (UFI) were designed for business entities. In TEP service territory they are lower than the residential incentives by 25% to take into account the advantages of their business model.

With the advent of residential leases, a new business model was introduced. This business model can deliver systems to customers in pre-paid form for much lower cost than a direct purchase, and in some cases free to the end customer. Leasing entities operating in a market setup for residential consumers

can lead to an overheated market, as Arizona has witnessed and is witnessing. The leasing model is currently dramatically over subsidized by public and ratepayer funds.

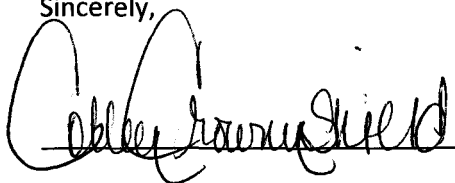
To properly align this new business model into the TEP incentive program a \$1.00/Watt UFI is needed. This differential is not a new concept and has been applied in LADWP service territory in California. Instating \$1.00/Watt UFI for leasing entities will allow for more systems to go up at a reduced cost to ratepayers thus securing the ability to reach the 20,000 MWh floor.

Moreover, continuing to allow the leasing business model to operate at the standard incentive level will undermine the stability of the marketplace thereby offsetting the benefits of a 20,000 MWh floor. Without the \$1/Watt UFI for the lease business model, a situation can be foreseen whereby residential incentives are depleted before second quarter of 2012. In fact, if the first week of September is any guide, the incentives for 2012 could be fully reserved by the end of January without a change in the incentive design. This would create an unsustainable market for all solar companies and their respective business models, due in part to the fact that the RECPP requires reserved systems to be installed within 6 months to retain their incentive.

Linking the 20,000 MWh floor with a revision to the residential UFI will ensure that no budget increase is needed to meet the floor. Most importantly, the two policies combined provide for a stable marketplace in the residential sector. Without **both** policies, a stable marketplace cannot be achieved without requiring an additional burden to ratepayers.

The success of the REST has given Arizona a strong start to its solar energy future. The solar industry creates economic vitality and provides energy security to thousands of Arizonans; a stable market will ensure that these benefits continue to accrue. Please give due consideration to the proposals we support while reviewing the 2012 TEP Implementation Plan. We thank the ACC for their stewardship in directing the long-term viability of the REST and we look forward to the continued success of the program.

Sincerely,



Colleen Crowninshield
Manager, Energy Programs
Pima Association of Governments



Gary G. Hayes
Executive Director
Pima Association of Governments